

VZCZCXRO2158
RR RUEHDBU RUEHIK RUEHLN RUEHVK RUEHYG
DE RUEHKV #1595/01 1840947
ZNR UUUUU ZZH
R 030947Z JUL 07
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC 2921
INFO RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE
RUEHBI/AMCONSUL MUMBAI 0068
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 KYIV 001595

SIPDIS

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SENSITIVE

DEPT FOR EUR/NCE, EUR/ERA, EB/CIP
MUMBAI FOR WKLEIN
USDOC FOR 4231/ITA/MAC/OEENIS/NISD/CLUCYK

E.O. 12958: N/A

TAGS: [ECPS](#) [ECON](#) [BEXP](#) [EINT](#) [UP](#)

SUBJECT: UKRAINE'S UKRTELECOM: NOT THE DINOSAUR IT APPEARS TO BE?

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¶1. (SBU) Summary. Georgiy Dzekon, Chairman of the Board of Ukraine's state-owned telecommunications provider, Ukrtelecom, charged that the State Property Fund's (SPF) attempt to sell 1% of Ukrtelecom stock in a trial run was counterproductive, noting that any money raised would not go back to bolster Ukrtelecom, but would go directly into the State budget. Dzekon contested the popular belief that Ukrtelecom was a scleritic dinosaur incapable of turning itself around, noting a projected 35% growth for Ukrtelecom in 2007. Moreover, he characterized Ukrtelecom as a company which is improving its infrastructure by investing 60 million USD over the last 3 years, patterning its business plan after other successful European models, eliminating obsolete positions, and developing new products, markets, and services. If Dzekon's claims hold true, Ukrtelecom might be a company worth watching, as Ukraine's telecommunications market is rapidly growing. End Summary.

Privatization or Raising Capital?

¶2. (SBU) EconOff met with Dzekon on June 14, 2007, on the heels of a public offering of 1% of Ukrtelecom stock. Under Ukrainian law, all privatization of state-owned enterprises falls under the jurisdiction of the SPF. Dzekon alleged the current head of the SPF, Valentyna Semeniuk, a socialist, had consistently derailed the privatization of Ukrtelecom and unwillingly allowed a mere 1% to be offered on June 15. He reminded EconOff that the well publicized sale of 1% had been held up due to a pending court decision on May 22 and cancelled on May 29 and June 5 because of a lack of bidders. On the first official offering of 15 on June 15, a mere 0.07% was sold for 3.07 million USD on the local stock exchange to two Ukrainian firms, Concord Capital and Millennium Capital. On June 20, however, the SPF cancelled the June 21 scheduled sale of another 1% again due to a lack of interest.

¶3. (SBU) Dzekon described himself as a proponent of true privatization who had pushed the selling of the majority of Ukrtelecom stock since becoming Chairman in 2003. Dzekon correctly predicted that a token amount would be sold on June 15, yet, he stressed that such a sale would not ensure that a substantial amount of stock would be put up for offer by the SPF any time soon thereafter. Dzekon felt that the SPF had received sufficient pressure from the President and some members of the Party of Regions to put up a small amount of stock to pacify critics and feign that

the SPF was actually slowly moving toward Ukrtelecom's privatization. According to current SPF regulations, the GOU would retain 50 +1% of shares in Ukrtelecom anyway, so selling off small percentages amounted to little more than raising funds for the State budget.

Changing Ukrtelecom's Image

¶4. (SBU) Dzekon claimed that President Yushchenko's progressive vision for Ukrtelecom was in line with his, and the President's support had allowed him to remain chairman when Communists and Socialists in government had called for his removal since 2003. Dzekon acknowledged that it had taken him three attempts to get an advertising budget from the government to improve Ukrtelecom's lackluster image. Dzekon recalled that few in government could understand why a telecommunications monopoly needed an advertising budget. After threatening to resign in 2005, Dzekon received a 3 million USD advertising budget in 2006, and a 6 Million USD advertising budget in 2007. Dzekon said that the advertising budget was used to showcase new products and services such as broadband and high speed Internet, and to improve Ukrtelecom's poor customer service image. Dzekon estimated that he spends 40% of his time dealing with customer service issues. Dzekon underlined that he had learned the value of improving customer service while working in the U.S. Dzekon recounted that he left a successful telecommunications job in San Francisco when he agreed to head Ukrtelecom in 2003. After sacrificing a lot to move back to Ukraine, he was prepared to make unpopular decisions at Ukrtelecom to improve Ukrtelecom's image and efficiency.

Downsizing Ukrtelecom

¶5. (SBU) In 2006, Dzekon took the controversial step of asking the
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Cabinet of Ministers for permission to downsize Ukrtelecom's employee base. Dzekon explained to government leaders that Ukrtelecom could cut necessary costs by downsizing from 120,000 employees to around 50,000 over the next 5-7 years. The savings could then be put into bonuses and employee merit programs in order to retain good employees. According to Dzekon, the GOU refused his downsizing request in 2006, but agreed to allow 10,000 positions to be cut in 2007. Dzekon added that he intended to ask for 10,000-15,000 cuts per year until the company is roughly 50,000 strong. Dzekon considered the approved 2007 cuts huge progress, especially since many of the cut positions were located in small villages and towns, and Dzekon initially believed that many politicians would be afraid of cutting State job in low income areas of the country. Dzekon said that he had visited many Ukrtelecom operations across the country, especially in small towns and villages, and was shocked to see that many employees were still receiving checks, even though their positions had become obsolete years ago.

Help from Europeans

¶6. (SBU) Dzekon attributed many improvements at Ukrtelecom to training and consulting services from representatives from the German State-owned Deutsche Telekom and the Italian State-owned Telecom Italia. Dzekon praised both as examples of very successful State-owned telecommunications companies. (Comment: Deutsche Telekom has been moving into the Eastern European market for some time. We suspect Ukraine's growing market has not gone unnoticed to them, so Deutsche Telekom might be building ties for the future. End comment). In addition, Dzekon felt that the European telecommunications companies and technology were more appropriate benchmarks for Ukraine than U.S. counterparts. Dzekon also said that Ukrtelecom was not interested in the Wimax technology developed by U.S.-based company Intel, as Europeans were developing their own technology that would match or even exceed Wimax. Dzekon was

willing to entertain opportunities to meet with U.S. companies in the future to at least exchange best practice ideas.

¶7. (SBU) Comment. Dzekon claimed that current political forces do not allow any of Ukrtelecom's success stories to get to the public. It seems that Dzekon's commitment to privatization, infrastructure reform, customer service, and employee retention are important long-term goals for a monopoly that is experiencing large growth. Dzekon added that it is his intention to gain more buy-in from Ukrainian politicians across parties, implement key business reforms, and bring Ukrtelecom up to European standards for quality and service. If Dzekon maintains his ability to reform Ukrtelecom despite political pressure, what is now widely regarded as the telecommunications dinosaur of Ukraine might actually evolve into something more viable rather than becoming extinct. End comment.
TAYLOR